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PERSPECTIVES ON THE PACIFIC COMMUNITY

Summary

Developed nations have become more interested over the last two decades in the nations surrounding the rim of the Pacific Ocean as these countries have come to play an increasingly important role in international trade, politics and security. As U.S. trade with Pacific nations rose beyond the levels recorded in trade with the European Community, interest in the notion of facilitating regional economic and possibly political ties heightened and a growing number of analysts spoke of the "Age of the Pacific."

In practical terms, however, the nations of the Pacific have been unable to promote comprehensive economic policies to enhance the development of economic relations. Political cooperation is also limited and proposals to increase contacts on this front often are controversial because of differing perceptions of political needs and realities. Grandiose rhetoric about the "Age of the Pacific" may have some basis in trade patterns, but more formal structures embodying this concept are far from reality.

What is the Pacific Basin?

A popular book several years ago had academic and policy circles buzzing with its argument that inherent economic and cultural conditions offered a favorable climate for several Asian nations to repeat Japan's economic success and establish a considerable presence, if not dominance, in markets around the globe. With consistently high growth rates for several years, relatively cheap

labor, favorable transportation costs, political stability and a work ethic that was conducive to rapid development, the authors insisted that the future was in Asia and particularly in those nations on the rim of the Pacific.

In its broadest sense, the Pacific Basin means those countries whose shores touch the Pacific Ocean. But in practical terms, the expression generally refers to slightly more than a dozen key countries with strong Asian ties, including the United States, Canada, Japan and the northeast Asian countries, the member states of the Association of Southeast Asian Nations, Australia, New Zealand and various territories and small, independent island nations in the Pacific. While the expression Pacific Basin implies an already-established concept, in fact, many pan-Pacific proponents have called for the establishment of a Pacific Economic Community -- duplicating the Common Market arrangement of Europe.

In many of the Pacific Basin nations, growth rates registered nearly double-digit increases for decades until the recession of the early 1980s. In the ten years from 1960, Hong Kong's annual increase in real gross domestic product averaged 10 percent. Between 1970 and 1982 it slid only slightly, to 9.9 percent. Rates for the same period in Malaysia, Singapore and the Republic of Korea reached 7.7 percent, 8.5 percent and 8.6 percent, respectively, compared with a 4.6 percent inflation-adjusted growth rate in Japan and only 2.7 percent in the United States. For the last eight years, economic growth rates in the region have been faster than those in North America and in the European Community.

To a certain degree, formal integration of the countries in the area makes sense, since most nations share common economic concerns. Access to and preservation of natural resources is a high priority since this translates directly into economic prosperity for both sellers and consumers. Development of new renewable resources holds similar importance in policymaking circles, with implications for both importing and exporting nations. With increasing manufacturing investment in the region, technology transfers have assumed greater importance to the Pacific rim countries, while joint discussions of industrial policies have assumed a significant role, particularly in light of Western concern over loss of markets to Asian competitors.

ASEAN is the most visible example of the potential of larger economic alliances. While less than a quarter of ASEAN's total trade is among member nations, the bulk of its overall trade is with Pacific Basin countries. The regional group has been credited with stimulating these exchanges and expanding total trade, while strengthening the individual member states' competitiveness with non-ASEAN countries, particularly the industrialized nations of the West and Japan. Supporters of a Pacific Economic Community note that 54 percent of the combined exports of the area's dozen or so major nations and 59 percent of their imports are with one another, indicating well-developed trade patterns in terms of volume, although not necessarily in a mix that is satisfactory to all partners. In any case, they argue, binding these relationships in an encompassing structure would facilitate these trends and increase regional leverage with other economic groups.

American Interests

In response to policy moves in Asian capitals, and after discussions with then Prime Minister Masayoshi Ohira of Japan, Sen. John Glenn's (D, Ohio) subcommittee on East Asian and Pacific affairs published an exploratory paper by Hugh Patrick, then of Yale University, and Peter Drysdale, of the Australia National University, dealing with the concept of an integrated Pacific community. The 1979 report proposed forming the Organization for Pacific Trade and Development -- a Pacific counterpart to the Organization for Economic Cooperation and Development but without its large and formal staffing arrangements. The discussion at the time was framed largely in terms of American exploitation of growing markets in Asia. OPTAD was seen in part not only as a means to preserve competitive positions abroad but to enhance them. A further motivation underlying the study was to facilitate development of mechanisms to assess the increasing impact of policies of Pacific Basin countries on one another.

Former Rep. Lester Wolff (D, N.Y.) subsequently joined the congressional bandwagon, proposing a Pan-Pacific Community Association -- a study group of sorts that would analyze common interests and concerns with the intention of drafting recommended policy options for individual countries. Progress on both fronts was stymied somewhat by disagreements between Sen. Glenn and Rep. Wolff. Sen. Glenn was leery of formal structures, while Rep. Wolff's approach was criticized as indistinct.

American interest in the Pacific accelerated when political differences between the Reagan administration and European allies seemed to highlight a more fundamental drift. Washington policymakers began speaking of the shift to the West Coast and beyond, not only of economic power but also political influence. The widely publicized remarks of former Under Secretary of State Lawrence Eagleberger in January 1984 represented this thinking. Eagleberger described his perception of a "shift of the center of gravity of U.S. foreign policy from the transatlantic relationship toward the Pacific Basin and particularly Japan," raising concern in European capitals that the United States was about to abandon traditional ties for a new relationship with its Pacific partners. Although administration officials tried to calm that storm, these were indications that, at the very least, serious attention would continue to focus on this group of nations. A subsequent reference by Secretary of State George Shultz to a "Pacific Community" raised eyebrows and encouraged speculation in Asia that the administration was about to embark on a serious campaign to encourage a formal grouping.

American interest in the Pacific cannot be denied. Cultural ties are relatively strong, particularly through Asian emigration to the West Coast. This country's historic fascination with the region has been replaced by more concrete evidence of Asia's importance. For the last five years, the value of U.S.-Pacific trade has exceeded U.S. trade with any other region, including Western Europe. ASEAN is this country's fifth-largest trading partner and the Japanese trade relationship, while second to trade with Canada, dominates policy concerns in Washington.

The Japanese Role

Japanese attitudes toward the Pacific Basin have both paralleled and in some cases predated U.S. observations on the issue. In 1968, then Foreign Minister Takeo Miki urged formal consideration of policy initiatives that would facilitate increased ties between Japan and other Basin countries. His political rival, Masayoshi Ohira, opted for serious study of similar issues when he took office in 1978. The Pacific Basin Cooperation Concept was an attempt to outline an economic cooperation effort with then Prime Minister Malcolm Fraser of Australia. A September 1980 conference organized in part by the group at the Australia National University was attended by business leaders, academics and government officials from 15 countries.

Mr. Ohira's death in 1980 curbed the momentum behind a pan-Pacific union, but Prime Minister Zenko Suzuki reactivated the concept in a 1982 speech titled "The Coming of the Pacific Age." Faced with increasing ASEAN skepticism -- the group feared being absorbed by a larger organization -- and the less-than-successful administration of the Suzuki era, discussion on cooperation came to a halt.

Because of these difficulties and more important foreign policy priorities, Prime Minister Yasuhiro Nakasone waited until July 1984 to broach the Pacific Basin discussion. A preliminary, tentative gesture toward regional cooperation was offered by Foreign Minister Shintaro Abe in the area of human resource development. The Japanese government indicated its willingness to help meet manpower requirements by providing education and training for Asian business, industry and government leaders.

The prime minister delivered a speech in January 1985 in Australia, outlining Japan's policy on Pacific Basin discussions. He said the talks must be limited to economic, cultural and technological cooperation, with security issues left to other forums. The speech emphasized private-sector initiatives and broached the possibility that other interested nations be allowed to participate in discussions and activities. Mr. Nakasone noted that the superpowers should respect individual initiatives, particularly those undertaken by the ASEAN Ministerial Conference, with the "dialogue partners" -- the United States, Canada, Japan, Australia and New Zealand.

This approach -- which rejects visible Japanese leadership in favor of quiet, behind-the-scenes cooperation and discussion -- continues to reflect Tokyo's position and is likely to remain its policy regardless of possible changes in administration. Japan's importance to any Pacific Basin initiative is obvious. It is the most highly developed economy in Asia and is increasingly assuming greater global responsibilities. Japanese economic growth has helped stimulate Pacific-wide growth through investment and demand for resources. There is a high degree of complementarity between Japan and the other economies in the region, and development assistance programs will expand Japanese interests in the region. Without Japan's cooperation and participation, the movement could create more problems than it solves, but all the potential members agree that Japanese dominance of such an organization is to be avoided.

Pan-Pacific Organizations

Several organizations have been established over the years to facilitate discussions on regional cooperation and in some instances stimulate progress toward the formation of a Pacific Economic Community. Included are:

- Pacific Basin Economic Council (PBEC) - Established in 1968, its founding members included businessmen from Australia, Canada, Japan, New Zealand and the United States. The membership has grown from a handful of member companies to more than 800 firms, including representatives from Korea and Taiwan. PBEC has supported training programs for managers and technicians in less developed countries, and is generally credited with increasing awareness of Pacific trade opportunities among business leaders.

- Pacific Trade and Development Conference (PAFTAD) - Started in 1968, the principal members are Canada, the United States, Japan and Australia. The group has met 14 times since its first seminar in Tokyo. Its members are mainly academics with economic backgrounds. PAFTAD promotes policy-oriented academic studies of Pacific economic issues.

- Pacific Economic Cooperation Conference (PECC) - This is the newest group, established in 1980 by ASEAN, the five industrialized Pacific nations, Korea and a few small Pacific states. PECC's function is to bridge the gap between PBEC and PAFTAD, and meetings occasionally have led to broader cooperation.

- Economic and Social Commission for Asia and the Pacific (ESCAP) - A commission of the United Nations, ESCAP was established in 1947 to facilitate economic and social development in Asia and the Pacific. Formerly titled the Economic Commission for Asia and the Far East (ESCAFE), it was a starting point in the move to establish the Asian Development Bank. Unfortunately for Pacific Basin enthusiasts, most observers consider ESCAP an example of everything that is wrong with the United Nations.

Impediments to Greater Cooperation

Yet for all these positive factors, serious impediments remain that thwart the dreams of Pacific futurists of developing a formally integrated economic and possibly political structure encompassing these diverse nations. Upon examination, many of the problems are understandable. The first is clearly the diversity of the region. The nations of the Pacific Basin represent a wide variety of cultures that inhibits cooperation rather than facilitates it. Religious and cultural differences have plagued relationships among and within many of these countries for centuries. Strong suspicion of Chinese immigrants is conspicuous in many Southeast Asian nations, for example, and linguistic and cultural disputes are commonplace. Cultural repression has been cited frequently as a major cause for continuing strife in the Philippines.

The absence of compatible goals is a fundamental problem facing the region. Some countries would prefer that a formal grouping be restricted to economic cooperation, while others insist on broader political ties. On the surface, this may appear to be a trivial point, but conflicts of interest can

be keen when considering policies toward the People's Republic of China, for example.

Involvement by the non-market economies on both economic and security grounds is a major stumbling point. Although the market economy countries would certainly welcome greater sales opportunities in China and other non-market countries, they may be less willing to give imports from such countries any more advantages than they already have. Inclusion in a Pacific Community may not be desirable, given the political cast of these nations and the perceived threats they pose to the region.

Even limiting a formal structure to economic goals among market economies does not necessarily assure success since nations with consistent trade deficits are likely to be hesitant about any arrangement that will make it easier for other nations to penetrate their markets. On the other hand, surplus countries will look for opportunities to increase exports. This conflict could worsen already serious trade problems, particularly with the United States, the largest overseas market for key members of the Pacific Basin.

A number of nations are fearful of being drawn into strategic plans developed by dominant nations in the Pacific, including the United States. In some instances, countries are afraid of cooperating with policies that will commit them to actions that may not be in their best interests or that will bring them into a confrontation with other major powers, such as the Soviet Union. In other cases, the concern is that Asia could become the battleground for a superpower conflict. This clash between strict neutrality and alliance is exemplified by New Zealand's threat to withdraw from the ANZUS alliance with Australia and the United States rather than permit nuclear-capable U.S. vessels to call at its ports. This anti-nuclear position has broader security implications, but in this instance it demonstrates a sensitivity to security issues by these nations and is an element that inhibits broader cooperation.

Security concerns are legitimate and widespread. All the nations in the area, for example, share a common interest in preserving open passage on the high seas and particularly through critical sealanes. The problem, however, comes in defining the best means of keeping them open, the perceived threats to free passage, and the implications of a joint security organization established on top of an economic promotion group.

Political stability -- or the lack of it -- in certain key countries may hinder or help solidarity in the region. The Philippines stands out as an example of a regime that is a cause of concern among its allies. The potential disruptive effects of a violent change in government are difficult to ascertain, but they are not likely to be positive. Concerns over internal security in the Philippines restrict Manila's potential contribution to greater economic unity and even rule out its political participation.

Another obstacle to unrestricted cooperation is the fear among smaller countries of domination by the larger economic powers. Given the present situation, they are concerned about becoming no more than export markets and resource suppliers for Japan, for example. Similar concerns exist vis-a-vis the United States, but the implications are particularly potent in Japan's case

in view of its attempts, however unsuccessful, in earlier years to establish the Greater East Asian Co-Prosperity Sphere.

Two practical considerations impede further economic cooperation. The first reality is that other sets of bilateral or trilateral relationships may take precedence over concerns for greater unity. The U.S.-Japan trade relationship, for example, accounts for the lion's share of total Pacific Basin trade. Any dispute between the two countries overrides a concern about Pacific trade. The strong pro-West leanings of the Nakasone government make this country Tokyo's number-one priority in policymaking considerations. Although the style of Japanese diplomacy may change under future leaders, the inclination will probably not. Japan has identified itself first as a member of the Western alliance and second as a Pacific nation. A pan-Pacific organization with anything less than Japan's 100 percent attention is unlikely to succeed. There are similar limitations to participation set by other bilateral relationships.

Perhaps the most serious threat to nurturing the still-fragile Basin concept, however, is the growing protectionist sentiment in the United States. Any limits on the exports of these nations would cause irreparable damage to their long-term economic hopes. A significant statistic cited by Pacific Basin enthusiasts makes this point clear: fully 70 percent of all developing country exports are from the newly industrialized nations of Asia.

Many measures now pending in Congress would affect the Pacific Basin directly and could result in reduced economic growth rates and increased political frictions. The issue is particularly sensitive since these nations produce a considerable amount of American imports across a broad range of industries -- from textiles to telecommunications equipment. Furthermore, the political spillover from the protectionist tide could also damage, if not poison, future efforts at serious cooperation.

Conclusion

There is no doubt that to a certain extent the Pacific Basin is more than just a blurry concept. Trade among the nations of Asia and the Pacific has been growing, despite occasional setbacks, and should continue upward if political disputes can be resolved. Whether total trade volume exceeds that among the Atlantic nations is unimportant. What does count is that all nations continue to prosper and that this success lead to greater global security.

This is particularly significant in Japan's case since it is a natural leader in the Pacific if it maintains its low profile. Japan has economic resources that Asia can utilize and offers a potential new market for Asian and Pacific exports of manufactured goods as well as raw materials. Tokyo's leadership role is expanding because of its economic power, and that can enhance the credibility of a new organization or at least increase the leverage of the Asian market economies. Japan's interest and participation so far has been encouraging to many observers because it indicates the country's willingness to provide leadership in Asia while remaining sensitive to regional concerns. Tokyo has not dictated or imposed a Japanese imprint on pan-Pacific proposals and its future involvement is more likely to be enlightened than heavy-handed.

At this point, however, the Pacific Economic Community is little more than an interesting but cumbersome concept. Examples of cooperation in aid and other areas used by PEC proponents to urge the establishment of a formal bureaucratic structure are not the results of pan-Pacific consciousness, but the sensible and pragmatic considerations of policymakers in individual countries who have defined their political and strategic priorities. It is this concern that will result in greater Pacific cooperation, but not all nations will be -- or should be -- involved, particularly in a formal setting.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

Table 1: Pacific Basin Population Growth Rates, 1980-83

(average annual percentage increase)

<u>Country</u>	<u>Rate</u>	<u>Country</u>	<u>Rate</u>
United States	0.9%	Philippines	2.6%
Canada	1.2	Korea	1.6
Japan	0.7	Hong Kong	1.8
Australia	1.5	Thailand	2.1
New Zealand	1.0	Malaysia	2.3
		Singapore	1.2
		Indonesia	1.8

Source: United Nations, Statistical Yearbook 1983Table 2: Economic Growth Rates of Pacific Basin Countries, 1960-82

(average annual growth of real GDP)

<u>Country</u>	<u>1960-70</u>	<u>1970-82</u>
United States	4.3%	2.7%
Canada	5.6	3.4
Japan	10.4	4.6
Australia	5.6	3.1
New Zealand	3.6	1.8
Philippines	5.1	6.0
Korea	8.6	8.6
Hong Kong	10.0	9.9
Thailand	8.4	7.1
Malaysia	6.5	7.7
Singapore	8.8	8.5
Indonesia	3.9	7.7

Source: United Nations, Statistical Yearbook 1983Table 3: Unemployment in Pacific Basin Countries, 1982

<u>Country</u>	<u>Rate</u>
United States	9.7%
Canada	11.0
Japan	2.4
Australia	7.1
Philippines	5.3
Korea	4.4
Hong Kong	3.8
Thailand	0.8 (1980)
Singapore	2.6

Source: United Nations, Statistical Yearbook 1983

Table 4: U.S. Pacific Basin Trade

(in billions of dollars, exports f.a.s./imports Customs value)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
<u>Canada</u>					
Exports	\$35.4	\$39.6	\$33.7	\$38.2	\$46.5
Imports	41.5	46.4	46.5	52.1	66.5
<u>Japan</u>					
Exports	20.8	21.8	21.0	21.9	23.6
Imports	30.7	37.6	37.7	41.2	57.1
<u>Australia</u>					
Exports	4.1	5.2	4.5	4.0	4.8
Imports	2.5	2.5	2.3	2.2	2.7
<u>New Zealand</u>					
Exports	0.6	0.9	0.9	0.6	0.7
Imports	0.7	0.7	0.8	0.7	0.8
<u>Philippines</u>					
Exports	2.0	1.8	1.9	1.8	1.8
Imports	1.7	2.0	1.8	2.0	2.4
<u>Korea</u>					
Exports	4.7	5.1	5.5	5.9	6.0
Imports	4.2	5.1	5.6	7.2	9.4
<u>Taiwan</u>					
Exports	4.3	4.3	4.4	4.7	5.0
Imports	6.9	8.1	8.9	11.2	14.8
<u>Hong Kong</u>					
Exports	2.7	2.6	2.5	2.6	3.1
Imports	4.7	5.4	5.5	6.4	8.3
<u>Thailand</u>					
Exports	1.3	1.2	0.9	1.1	1.1
Imports	0.8	1.0	0.9	1.0	1.3
<u>Malaysia</u>					
Exports	1.3	1.5	1.7	1.7	1.9
Imports	2.6	2.2	1.9	2.1	2.7
<u>Singapore</u>					
Exports	3.0	3.0	3.2	3.8	3.7
Imports	1.9	2.2	2.2	2.9	4.0
<u>Indonesia</u>					
Exports	1.6	1.3	2.0	1.5	1.2
Imports	5.2	6.0	4.2	5.3	5.5

Source: U.S. Department of Commerce, Highlights of U.S. Export and Import Trade (FT 990)

Table 5: Japan's Pacific Basin Trade

(in billions of dollars, exports f.o.b/imports c.i.f.)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
<u>United States</u>					
Exports	\$31.4	\$38.6	\$36.3	\$42.8	\$59.9
Imports	24.4	25.3	24.2	24.7	26.9
<u>Canada</u>					
Exports	2.4	3.4	2.9	3.6	4.3
Imports	4.7	4.5	4.4	4.4	5.0
<u>Australia</u>					
Exports	3.4	4.8	4.6	4.3	5.2
Imports	7.0	7.4	7.0	6.6	7.3
<u>New Zealand</u>					
Exports	0.7	0.9	0.9	1.0	1.2
Imports	0.8	0.9	0.9	0.9	0.9
<u>Philippines</u>					
Exports	1.7	1.9	1.8	1.7	1.1
Imports	2.0	1.7	1.6	1.3	1.4
<u>Korea</u>					
Exports	5.4	5.7	4.9	6.0	7.2
Imports	3.0	3.4	3.3	3.4	4.2
<u>Taiwan</u>					
Exports	5.2	5.4	4.3	5.1	6.0
Imports	2.3	2.5	2.4	2.6	3.2
<u>Hong Kong</u>					
Exports	4.8	5.3	4.7	5.3	6.6
Imports	0.6	0.7	0.6	0.7	0.8
<u>Thailand</u>					
Exports	1.9	2.3	1.9	2.5	2.4
Imports	1.1	1.1	1.0	1.0	1.0
<u>Malaysia</u>					
Exports	2.1	2.4	2.5	2.8	2.9
Imports	3.5	2.9	3.0	3.1	4.4
<u>Singapore</u>					
Exports	3.9	4.5	4.4	4.5	4.6
Imports	1.5	1.9	1.8	1.5	1.8
<u>Indonesia</u>					
Exports	3.5	4.1	4.3	3.6	3.1
Imports	13.2	13.3	12.0	10.4	11.2

Source: Japan Tariff Association, The Summary Report: Trade of Japan